# *RASMUSSEN COLLEGE, INC.*
# *AND SUBSIDIARIES*

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
SEPTEMBER 30, 2009

McClintock
& Associates, P.C.
Certified Public Accountants & Consultants

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Rasmussen College, Inc.
Burr Ridge, Illinois

We have audited the consolidated balance sheet of Rasmussen College, Inc. and Subsidiaries as of September 30, 2009 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year ended September 30, 2009. These consolidated financial statements are the responsibility of the Rasmussen College, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rasmussen College, Inc. and Subsidiaries as of September 30, 2009, and the results of their consolidated operations and their consolidated cash flows for the year ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

McClintock & Associates, P.C.

Pittsburgh, Pennsylvania
February 26, 2010

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# *Rasmussen College, Inc. and Subsidiaries*

## CONSOLIDATED BALANCE SHEET

ASSETS

| | | September 30, 2009 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ | 23,271,334 |
| Restricted cash | | 1,219,866 |
| Certificate of deposit | | 1,204,191 |
| Accounts receivable, net of allowance for doubtful accounts of $1,144,449 | | 6,326,189 |
| Prepaid income taxes | | 2,456,851 |
| Deferred income taxes | | 25,863 |
| Prepaid expenses | | 6,678,628 |
| **TOTAL CURRENT ASSETS** | | 41,182,922 |
| **FURNITURE, EQUIPMENT AND IMPROVEMENTS** | | |
| Furniture and equipment | | 22,954,844 |
| Leasehold improvements | | 5,589,354 |
| | | 28,544,198 |
| Less accumulated depreciation and amortization | | (10,298,873) |
| | | 18,245,325 |
| Construction in progress | | 566,526 |
| | | 18,811,851 |
| **DEPOSITS** | | 253,548 |
| **INTANGIBLE ASSETS** | | |
| Goodwill | | 33,364,946 |
| Other intangibles, net of accumulated amortization of $4,300,000 | | 12,100,000 |
| | | 45,464,946 |
| **TOTAL ASSETS** | $ | 105,713,267 |

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | September 30, 2009 |
|---|---|
| **CURRENT LIABILITIES** | |
| Accounts payable | $ 7,576,430 |
| Accrued expenses | 7,513,163 |
| Current portion of stock option payable | 853,728 |
| Deferred and prepaid revenue | 3,965,752 |
| Due to students under financial aid programs | 1,219,866 |
| Current portion of long-term debt | 5,000,000 |
| **TOTAL CURRENT LIABILITIES** | 26,128,939 |
| **LONG-TERM DEBT,** net of current portion | 18,000,000 |
| **STOCK OPTION PAYABLE,** net of current portion | 3,814,896 |
| **DEFERRED RENT CREDIT** | 1,272,960 |
| **DEFERRED INCOME TAXES** | 194,257 |
| **FAIR VALUE OF INTEREST RATE SWAP CONTRACT** | 1,708,646 |
| **SHAREHOLDERS' EQUITY** | |
| Common stock ($.01 par value; 25,000,000 shares authorized; 21,418,685 shares issued; 13,117,455 shares outstanding) | 214,187 |
| Additional paid-in capital | 59,969,105 |
| Less treasury stock (8,301,230 shares at cost) | (30,940,472) |
| Retained earnings | 27,059,395 |
| Accumulated other comprehensive loss | (1,708,646) |
| **TOTAL SHAREHOLDERS' EQUITY** | 54,593,569 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 105,713,267 |

# *Rasmussen College, Inc. and Subsidiaries*

## CONSOLIDATED STATEMENT OF INCOME

| | Year Ended September 30, 2009 |
|---|---|
| **REVENUE** | $ 168,870,644 |
| **OPERATING EXPENSES** | |
| Instructional | 38,049,816 |
| General and administrative | 59,300,846 |
| Admissions | 34,893,573 |
| Occupancy | 10,099,427 |
| Stock option plan termination expense | 4,481,314 |
| | 146,824,976 |
| **INCOME BEFORE INCOME TAXES** | 22,045,668 |
| Provision for income taxes | 2,875,554 |
| **NET INCOME** | $ 19,170,114 |

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year Ended September 30, 2009 |
|---|---|
| **NET INCOME** | $ 19,170,114 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | |
| Unrealized loss in fair value of interest rate swap contract | (1,347,724) |
| Reclassification adjustment due to interest paid on swap contract, net of income taxes | 664,410 |
| | (683,314) |
| **TOTAL COMPREHENSIVE INCOME** | $ 18,486,800 |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Common Stock | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|
| **BALANCE AT SEPTEMBER 30, 2008** | $ 214,187 | $ 61,142,489 | $ (24,390,002) | $ 7,889,281 | $ (360,922) |
| Net income | 0 | 0 | 0 | 19,170,114 | 0 |
| Unrealized loss in fair value of interest rate swap contract | 0 | 0 | 0 | 0 | (1,347,724) |
| Purchase of treasury stock | 0 | 0 | (7,117,169) | 0 | 0 |
| Sale of treasury stock | 0 | 0 | 566,699 | 0 | 0 |
| Termination of stock option plan | 0 | (1,173,384) | 0 | 0 | 0 |
| **BALANCE AT SEPTEMBER 30, 2009** | $ 214,187 | $ 59,969,105 | $ (30,940,472) | $ 27,059,395 | $ (1,708,646) |

*See accompanying notes to consolidated financial statements.*

# *Rasmussen College, Inc. and Subsidiaries*

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | | Year Ended September 30, 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ | 19,170,114 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for deferred income taxes | | (4,550,465) |
| Stock option plan termination expense | | 4,481,314 |
| Increase in allowance for doubtful accounts | | 419,754 |
| Depreciation and amortization of furniture, equipment and improvements | | 3,797,462 |
| Amortization of intangible assets | | 3,334 |
| Increase in deferred rent credit | | 234,146 |
| Decrease (increase) in: | | |
| Accounts receivable | | (1,264,344) |
| Prepaid income taxes | | (2,334,904) |
| Prepaid expenses | | (1,809,529) |
| Deposits | | (56,198) |
| Increase (decrease) in: | | |
| Accounts payable | | 2,891,783 |
| Accrued expenses | | 2,379,914 |
| Due to students under financial aid programs | | 19,473 |
| Deferred and prepaid revenue | | (636,716) |
| Total net operating adjustments | | 3,575,024 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | | 22,745,138 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of furniture, equipment and improvements | | (7,804,017) |
| Net decrease in certificates of deposit | | 112,259 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (7,691,758) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Increase in restricted cash | | (19,473) |
| Principal payments on line of credit | | (3,000,000) |
| Net purchases of treasury stock | | (6,550,470) |
| **NET CASH USED IN FINANCING ACTIVITIES** | | (9,569,943) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 5,483,437 |
| Cash and cash equivalents at beginning of year | | 17,787,897 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ | 23,271,334 |

*See accompanying notes to consolidated financial statements.*

## NOTE A - NATURE OF OPERATIONS AND SUBSEQUENT EVENTS

Rasmussen College, Inc. (the Company, or Rasmussen) is a diversified education company which serves students through a services company and its own colleges:

**Deltak edu**

Deltak edu, Inc., a wholly owned subsidiary, provides program development, and student recruitment and retention services in partnership with colleges and universities throughout the country. The partner colleges and universities utilize Deltak edu's services to rapidly launch and support online certificate, bachelor degree, and master's degree programs in a variety of disciplines.

**Rasmussen College Title IV Eligible Schools (the "Colleges")**

Rasmussen also operates proprietary post-secondary schools in Florida, Illinois, Minnesota, North Dakota and Wisconsin, through six wholly owned subsidiaries. These schools award associate degrees and bachelor degrees focused on the following career fields: Allied Health, Business, Education, Justice Studies, Nursing, and Technology and Design. In addition to students who matriculate locally at the Rasmussen College locations, the schools reach students nationwide through their accredited online programs. The Rasmussen College subsidiaries are regionally accredited by the Higher Learning Commission of the North Central Association, and they participate in the federal Title IV student aid programs, as well as student grant programs in several states.

**History**

Rasmussen College, Inc. was formed as Collegis University Solutions in 2003 as part of the Collegis Services Company.

On December 1, 2003, the Company purchased principally all of the assets, excluding real estate, and assumed certain liabilities, from Rasmussen Business College -- Minnetonka, Inc., Rasmussen Business College – Eagan, Inc., Rasmussen Business College – Mankato, Inc., St. Cloud Business College, Inc. and Professor Valley Educational Services, L.L.C. (collectively, "the Predecessor Companies").

On September 8, 2004, the Company purchased all of the issued and outstanding common stock of Webster College, Inc., a Florida corporation which operated two post-secondary schools in Florida.

**Incorporation Changes**

On May 4, 2009, the Company was approved for S corporation status and on October 2, 2009, the Colleges and Deltak edu, Inc. elected S corporation status under the Federal Internal Revenue Code and the applicable state statutes. The Colleges and Deltak edu, Inc. were approved for Qualified Subchapter S Corporation Subsidiaries.

The Board of Directors has approved and recommended to the shareholders a plan to reorganize the legal structure for regulatory purposes. The Articles of Incorporation will be amended to change the name of the Company to Rasmussen, Inc. In addition, the Colleges will be merged into one company with the surviving company being Ras-St. Cloud, Inc. The Articles of Incorporation of Ras-St. Cloud Inc. will be amended to change its name to Rasmussen College, Inc.

No change in the organization or name of Deltak, edu, Inc. will occur.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in the bank, overnight sweep accounts and all short-term investments with original maturities of ninety days or less.

**Accounts Receivable and Allowance for Doubtful Accounts**

Student receivables are recorded at the amounts originally billed, less payments received, and are non-interest bearing. Management has estimated an allowance for doubtful student accounts receivable based upon historical losses and the sum of the collection risks associated with each student's uncollected balance at year-end. Balances owed by students who have graduated or withdrawn are pursued by the Company and eventually submitted to an outside collection agency and written off after ninety days unless the student is in compliance with their payment plan.

Partner School receivables are recorded at the amounts originally billed, less payments received, and are non-interest bearing. Partner School receivables also include amounts the Company has earned in the current period, but have not billed the customer for. These are usually billed within one month. Unbilled receivables were approximately $2,139,000 at September 30, 2009. Management has deemed that no allowance for doubtful accounts for Partner Schools is needed at year-end based upon the payment history and communications with the Partner Schools.

**Furniture, Equipment and Improvements**

Furniture, equipment and leasehold improvements are recorded on the basis of cost. Expenditures for renewals and betterments which extend the life of the assets are capitalized. Repairs and maintenance items are charged to expense as incurred. Gain or loss on the sale or disposal is recorded in the year of disposition.

**Depreciation and Amortization**

Depreciation of furniture and equipment and amortization of leasehold improvements is computed using the straight-line method based on the estimated useful lives of the assets and the length of the leases. Depreciation and amortization expense (excluding amortization of intangible asset) for the year ended September 30, 2009 was $3,797,462.

**Interest Rate Swap Contract**

The interest rate swap contract (described more fully in Note H), which is a derivative instrument and qualifies as a cash flow hedge, is reported at fair value. The gain or loss on the hedge is initially recorded as a component of other comprehensive income, and is subsequently reclassified into earnings when interest on the related debt is paid.

**Goodwill and Other Intangible Assets**

Goodwill represents the excess of the cost of assets acquired through business combinations, over the estimated fair value of the net assets as of the date of purchase. Goodwill and intangible assets whose lives are determined to be indefinite are not amortized; these assets are reviewed for impairment by management on an annual basis. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated future lives. As of September 30, 2009 all intangibles with determinable lives were fully amortized.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Deferred and Prepaid Revenue and Revenue Recognition**

Revenues from student tuition and fees are deferred at the time of registration and are recognized ratably over the term of enrollment. Tuition adjustments for students who withdraw are calculated in accordance with federal, state, and accrediting agency standards. Amounts remitted by students, or on behalf of the students through financial aid sources for future tuition, are recorded as prepaid tuition.

**Contract Revenue Recognition**

Under Subtopic 605-45 *"Principal Agent Considerations" of the FASB Accounting Standards Codification,* the Company recognizes revenue on either the Gross or Net method based upon the structure of the contract with each of the Partner Schools.

For contracts that the Company deems itself to be a Principal, the Company bills students enrolled at the Partner Schools upon the completion of certain benchmarks and for amounts specified in the students' enrollment agreements. A portion of the amounts collected from the students is remitted to the Partner Schools as specified in the related contracts. Gross revenue from students is deferred at the time of enrollment and recognized ratably as students progress through their academic programs. Payments remitted to Partner Schools are charged to expense as incurred. As of September 30, 2009, revenue of $430,236 was deferred under these contacts.

For contracts that the Company deems itself to be an Agent, the Company bills the Partner Schools based on the number of students enrolled at the times and amounts specified in the related contracts. The Company recognizes its portion of net revenue ratably over the duration of the billing period. As of September 30, 2009, revenue of $413,657 was deferred under these contacts.

**Deferred Rent Credit**

The Company recognizes rent expense on the straight-line method over the lives of the leases. The cumulative excess of the amounts expensed over the payments required under the leases through September 30, 2009 is recorded as deferred rent credit. This credit will be used to offset future rent expense for financial statement purposes.

**Income Taxes**

Rasmussen College, Inc. and its subsidiaries are parties to a consolidated tax sharing agreement. The provision for income taxes and the related income tax assets and liabilities recorded herein have been calculated as if the subsidiaries record their income taxes on a standalone basis. This includes their share of current income tax expense and deferred tax liability relating to goodwill arising from the acquisition.

The Company has provided for deferred income taxes under the asset and liability method of accounting. This method requires the recognition of deferred income taxes, based upon the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The deferred taxes represented the future tax return consequences of the differences between the basis of certain assets and liabilities for financial and tax reporting.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Stock Based Compensation**

The Company accounts for stock-based compensation in accordance with Topic 718, *Compensation – Stock Compensation of the FASB Accounting Standards Codification* which requires the options to be recognized at their fair value.

**Financial Instruments**

The fair values and carrying amounts of the Company's current assets and liabilities financial instruments are approximately equivalent due to their short-term lives. The carrying value of the Company's debt obligations reasonably approximate their fair values because their interest rates approximate current market rates of debt obligations with similar terms.

**Advertising Costs**

Advertising costs are expensed as incurred, and are reported in the accompanying consolidated statement of income. Total advertising expense for the year ended September 30, 2009 was approximately $15,236,000.

**New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN-48), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109.* FIN-48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Topic 740, *Income Taxes of the FASB Accounting Standards Codification.* This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN-48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which was issued in December 2008, defers the effective date of FIN-48 for nonpublic entities to annual financial statements for fiscal years beginning after December 15, 2008. The Company has elected to defer the application of FIN-48 in accordance with FSP FIN 48-3. The Company presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying Topic 450, *Contingencies of the FASB Accounting Standards Codification.* The Company will be required to adopt FIN-48 in its 2010 annual financial statements. Management is currently assessing the impact of FIN-48 on its financial statements.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Consolidation**

The consolidated financial statements include the accounts and results of operation of Rasmussen College, Inc., and its wholly-owned subsidiaries Webster College, Inc. of Florida, Ras-Eagan, Inc., Ras-Mankato, Inc., Ras-Minnetonka, Inc., Ras-St. Cloud, Inc., Aakers, Inc. and Deltak edu, Inc. All intercompany transactions and balances between the Company and its Subsidiaries have been eliminated.

## NOTE C - GOODWILL AND OTHER INTANGIBLE ASSETS

The Company acquired goodwill and other intangible assets through various business combinations (Note A). Goodwill is tested for impairment at fiscal year end, after the current year operating results are known. Intangible assets related to the value of accreditation and trade name are also tested for impairment, as these assets are believed to have indefinite useful lives. A summary of the intangible assets acquired, their amortization, and expected useful lives are presented below.

| | |
|---|---|
| Goodwill balance at September 30, 2008 | $ 33,364,946 |
| Impairment loss | 0 |
| Goodwill balance at September 30, 2009 | $ 33,364,946 |

Other acquired intangible assets, and related amortization:

| | Gross Carrying Amount | Accumulated Amortization |
|---|---|---|
| Amortized Intangible Assets: | | |
| Student base, amortized on a straight-line basis over 30 months | $ 3,900,000 | $ (3,900,000) |
| Curricula, amortized on a straight-line basis over 24 months | 300,000 | (300,000) |
| Non-compete agreements, amortized on a straight-line basis over 60 months | 100,000 | (100,000) |
| Subtotal | 4,300,000 | $ (4,300,000) |
| Unamortized Intangible Assets: | | |
| Accreditation | 10,900,000 | |
| Trademarks/trade names | 1,200,000 | |
| Subtotal | 12,100,000 | |
| Total | $ 16,400,000 | |
| Aggregate Amortization Expense: | | |
| For the year ended September 30, 2009 | $ 3,334 | |
| Estimated Future Amortization Expense: | | |
| For the year ended September 30, 2010 | $ 0 | |

## NOTE D - CONCENTRATION OF CREDIT RISK

The Company, at times, has cash deposits which exceed $100,000 in an individual bank. The Federal Deposit Insurance Corporation (FDIC) insures only the first $100,000 of funds at member banks. The Emergency Economic Stabilization Act of 2008 that was enacted October 3, 2008, temporarily raised the FDIC insurance coverage to the first $250,000 of funds at member banks. This temporary increase is scheduled to expire on January 1, 2014. In addition, the FDIC's Transaction Account Guarantee Program temporarily established unlimited coverage for non-interest bearing transaction accounts at participating FDIC insured banks. This temporary coverage is scheduled to expire July 1, 2010.

The accounts receivable include amounts receivable from students for tuition. Many of the Company's students are eligible for federal government loan and grant programs and state grant programs which are administered by the Company. These receivables are unsecured.

The accounts receivable also includes amounts due from post-secondary institutions. These amounts are unsecured.

Four partner colleges and universities provide approximately sixty-six percent of the gross revenue of Deltak edu, Inc. Deltak edu, Inc. has service contracts with these partners which expire at various dates between August 2012 and May 2017.

## NOTE E - RESTRICTED CASH

Cash of $1,219,866 as of September 30, 2009 is shown as restricted with a corresponding liability "Due to Students Under Financial Aid Programs." These funds represent amounts advanced by various governmental agencies that have not yet been earned or distributed to eligible students.

## NOTE F - LINE OF CREDIT AND SUBSEQUENT EVENT

The Company has available a $3,000,000 line of credit with a bank, bearing interest at LIBOR, plus an additional rate which is based upon the Company's leverage ratio, as defined by the loan agreement (the interest rate was 2.49% on September 30, 2009). This line is secured by a first priority security interest in the capital stock of the Company and its subsidiaries. Repayment is due on September 18, 2011. At September 30, 2009, the balance outstanding under this line of credit was $0. See Note G for changes to the line of credit after September 30, 2009.

The revolving loan agreement is used to secure various letters of credit, issued by the Company, for the benefit of other companies within the consolidated group, as more fully described in Notes G and K. The amount of the line of credit available to draw as of September 30, 2009 is $2,275,000.

## NOTE G - LONG-TERM DEBT AND SUBSEQUENT EVENT

Long-term debt at September 30, 2009 consists of the following:

| | |
|---|---|
| Note payable to a bank, with principal due in quarterly installments ranging from $500,000 to $1,000,000 beginning in November, 2009, with a final principal payment of $9,000,000 due in September, 2014. The note bears interest at LIBOR plus an additional rate which is based upon the Company's leverage ratio, as defined in the loan agreement (the interest rate was 2.74% on September 30, 2009). The loan is secured by a first priority security interest in the capital stock of the Company and its Subsidiaries. The Company has entered into an interest rate swap contract to hedge its variable interest rate exposure for this term loan, as more fully described in Note H. | $ 23,000,000 |

The loan agreement which governs the term loan and the line of credit contains various financial and non-financial covenants which are common to loan agreements of this nature and the Company was in compliance with these covenants for the year ended September 30, 2009.

On November 20, 2009, the Company amended the loan agreement covering the line of credit and the term loan. The Company borrowed an additional $12,000,000 under the amended loan agreement which will be utilized to fund the stock dividend declared (Note I). The line of credit will continue to be used to secure the various letters of credit, issued by the Company, for the benefit of other companies within the consolidated group, as more fully described in Note K. The interest rate on the line of credit and term note will be the Base Rate or LIBOR Rate plus a fixed margin of 3.5% as defined by the loan agreement. The line of credit will be due on November 20, 2012 and the term note is due in full on September 18, 2014 under the following schedule: quarters one to four - $1,250,000 per quarter; quarters five to nineteen - $1,500,000 per quarter; final balance due at maturity. The Company has the option to make voluntary prepayments. The amended loan agreement is secured by a first priority perfected security interest in the Assets of the Company. Distributions are allowed semi-annually without the bank's consent as long as certain financial covenants are maintained. The current portion of long-term debt at September 30, 2009 reflects the repayments under the amended loan agreement.

Maturities on long-term debt scheduled for the next five years and in the aggregate are as follows: 2010 - $5,000,000; 2011 - $6,000,000; 2012 - $6,000,000; 2013 - $6,000,000 and 2014 - $12,000,000.

## NOTE H - INTEREST RATE SWAP CONTRACT DERIVATIVE HEDGE

The Company records its interest rate swap contract (the Swap), which is a derivative instrument and qualifies as a cash flow hedge, at fair value (see Note B). At September 30, 2009, the fair value of the Swap was negative $1,708,646. The fair value of the Swap was estimated by a financial institution issuing the hedge contract based upon the net present value of expected future cash flows. These estimates may change due to changes in the estimate of future market interest rates.

The Company intends to retain the Swap agreement until its scheduled maturity on September 18, 2014, although there are no assurances that those plans will not change. The Fixed Rate of interest appurtenant to the Swap is 4.27%. The floating rate of interest is based upon USD-LIBOR-BBA, and it will be adjusted monthly. The notional amount of the Swap equals the outstanding principal balance of the related Term Loan, as more fully described in Note G.

## NOTE I - SHAREHOLDERS' EQUITY AND SUBSEQUENT EVENT

**Fiscal 2009 Treasury Stock Transactions**

On October 13, 2008, the Company's Board of Directors authorized a 1 to 20,000 reverse stock split, and subsequent redemption of all shareholders who owned less than one share. The redemption price ($5.27 per share before the reverse split) was determined by an independent appraisal performed by Duff & Phelps as of July 21, 2008. During 2009, the Company repurchased the equivalent of 1,350,506 pre-reverse split shares for a total of $7,117,169. Immediately after the redemption was completed, the Board approved a 20,000 to 1 stock split.

During 2009, the Company sold 107,533 shares of treasury stock at $5.27 (the appraisal price) for a total of $566,699.

**Subsequent Event**

On October 19, 2009, the Board of Directors authorized the payment of a cash dividend to shareholders of record on November 13, 2009 equal to $1.88 per share. The dividend, which totaled $24,689,014, was paid by December 31, 2009.

The Board of Directors authorized the total aggregate issuance of 50,000,000 shares of Common Stock and executed a one-for-two stock split effective as of November 30, 2009.

## NOTE J - INCOME TAXES

Due to the Subchapter S Corporation election (Note A), the deferred tax assets and liabilities have been reversed except for some state tax differences.

The Company's deferred tax assets and liabilities are as follows:

| | | |
|---|---|---|
| Current deferred tax assets | $ | 28,639 |
| Current deferred tax liabilities | | (2,776) |
| Long-term deferred tax assets | | 124,123 |
| Long-term deferred tax liabilities | | (318,380) |
| Net deferred tax liabilities | $ | (168,394) |

There is a timing difference regarding depreciation and amortization for financial statement and income tax purposes. For financial statement reporting, the Company uses accounting methods and lives that recognize depreciation later than for income tax reporting. As a result, the basis of property and equipment for tax purposes is less than its financial reporting basis. A long-term deferred income tax liability of $(124,382) has been recorded for this excess. In addition, the Company amortizes goodwill for income tax purposes but not financial statement purposes. As a result, the basis of goodwill for tax purposes is less than its financial statement basis. A long-term deferred income tax liability of $(193,998) has been recorded. The Company has recorded an allowance for doubtful accounts to establish a reserve for uncollectible accounts. This allowance is not deductible for tax purposes until the uncollectible accounts are actually written off. As a result, a current deferred income tax asset of $16,179 has been recorded. The Company has recorded an expense for stock-based compensation which is currently not deducted for tax purposes. As such, a long-term deferred tax asset of $54,786 has been recorded. There are other timing differences which created deferred income tax assets of $81,797 and deferred income tax liabilities of $(2,776).

## NOTE J - INCOME TAXES (CONTINUED)

The net deferred tax liability by tax jurisdiction is as follows:

| | | |
|---|---|---|
| Federal | $ | 0 |
| State | | (168,394) |
| | $ | (168,394) |

The provision (credit) for income taxes is comprised of the following:

| | | | |
|---|---|---|---|
| Current: | Federal | $ | 5,469,661 |
| | State | | 1,703,209 |
| | Prior year under provision - Federal | | 56,849 |
| | Prior year over provision - State | | (8,990) |
| | | | 7,220,729 |
| Deferred: | Federal | | (3,839,656) |
| | State | | (710,809) |
| | | | (4,550,465) |
| | | $ | 2,670,264 |

## NOTE K - COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries lease classroom and office facilities under numerous operating leases expiring at various dates through 2020. In addition, the Company leases equipment and contracts with a third-party vendor for various IT related services. These leases and contracts exceed one year in length and expire from 2012 to 2013. Some of the facilities leased by three of the Company's schools are owned by related parties, as more fully described in Note O. The Company has options to extend some of these leases for additional terms of up to ten years, and to lease additional space at the then current rates of the leases. The IT contract can be extended for an additional two years, and the monthly services can be changed subject to a minimum monthly fee. Future minimum lease payments are subject to annual increases; in addition, the Company is responsible for supplemental lease payments to reimburse the landlords for their proportionate share of the buildings' operating costs. Minimum future lease payments for the next five years and in the aggregate are as follows:

| **Year Ended September 30,** | | |
|---|---|---|
| 2010 | $ | 9,907,000 |
| 2011 | | 9,838,000 |
| 2012 | | 9,441,500 |
| 2013 | | 7,890,000 |
| 2014 | | 7,554,000 |
| Thereafter | | 26,271,000 |
| | $ | 70,901,500 |

The amount charged to operations under all operating leases for the year ended September 30, 2009 was approximately $6,824,000.

In certain instances the Company has issued letters of credit naming a landlord as beneficiary. In such cases, the letters of credit are secured by the line of credit, as more fully described in Note H.

## NOTE L - STOCK OPTION PLANS

### 2004 Stock Option Plan

The Company sponsored a 2004 stock option plan for its directors, officers, employees, and advisors. Under this plan, options were granted which were convertible into shares of common stock upon exercise. The Plan allows either incentive stock options or nonqualified stock options. No stock option was exercisable more than ten years after the date of grant, and exercise privileges may be accelerated or forfeited in the event of a change in control of the Company, or a change in the option holder's service relationship with the Company. The options were exercisable in four annual increments equaling one quarter of the recipients' total award. As of September 30, 2008, the Company had reserved approximately 2.5 million shares of common stock for the exercise of options outstanding at September 30, 2008, and approximately 500,000 additional shares of common stock for future stock option awards under the plan. The exercise price for these options was either $2.85 or $3.50, dependent upon the date of issuance.

On December 11, 2008, the Board of Directors voted to replace the 2004 stock option plan with a new plan to take effect on December 11, 2008. Under the terms of the 2004 stock option plan termination agreement, the Company will pay each option holder the difference between $5.27 per share and the options' stated exercise price, over a period of thirty months. To the extent that an option holder ceases their employment or similar professional association with the Company before vested scheduled payment, the expected payment amounts shown below will be reduced. The purchase price of $5.27 was determined by an independent appraisal performed as of July 21, 2008.

In accordance with the provisions of FASB Accounting Standard Codification Topic 718, upon execution of the option termination agreement, the Company reversed approximately $1,173,000 of previously recognized additional paid-in capital, recognized compensation cost for options which have not previously been recorded in the Company's statement of income, and recorded a liability in an amount equal to the future payments. Annually thereafter, the Company will re-measure the estimated fair value of the awards, and adjust compensation expense and the related liability accordingly, until all of the options have been repurchased. As of September 30, 2009, a liability of approximately $5,654,000 has been recorded and approximately $4,481,000 was recognized as additional compensation expense during 2009. Total payments of approximately $986,000 were made during 2009.

Expected future payments are as follows:

| | | |
|---|---|---|
| November 2009 | $ | 854,000 |
| May 2010 | | 889,000 |
| November 2010 | | 927,000 |
| May 2011 | | 966,000 |
| November 2011 | | 1,032,000 |
| Total | $ | 4,668,000 |

Stock option activity for the 2004 plan was as follows:

| | Shares |
|---|---|
| Outstanding as of September 30, 2008 | 2,498,541 |
| Granted | 0 |
| Exercised | 0 |
| Cancelled | (2,498,541) |
| Outstanding as of September 30, 2009 | 0 |

## NOTE L - STOCK OPTION PLANS (CONTINUED)

**2008 Stock Option Plan**

Concurrent with the termination of the 2004 stock option plan, the Board of Directors approved a new nonqualified stock option plan, the 2008 stock option plan. Under this plan, options were granted which were convertible into shares of common stock upon exercise. No stock option is exercisable more than fifteen years after the date of grant, and exercise privileges may be accelerated or forfeited in the event of a change in control of the Company, or a change in the option holder's service relationship with the Company. Upon an option holder's termination of service, a Company repurchase option and a put option for the holder exist. The options are exercisable in four annual increments equaling one quarter of the recipients' total award. As of September 30, 2009, the Company had reserved approximately 3,250,000 million shares of common stock for the exercise of options. During fiscal year 2009, management issued 165,864 options as a result of redemption, 2,453,542 options to replace the 2004 options and 155,000 new options. The exercise price for these options is $5.27 per share as determined by an independent appraisal performed by Duff & Phelps as of July 21, 2008.

The fair value of each option was estimated on the date of grant based upon the Black-Scholes option pricing model. The weighted average fair value of the options granted during the period ended September 30, 2009 and assumptions used to value the options are as follows:

| | |
|---|---|
| Dividend yield | 0% |
| Risk-free interest rate | 3.36% |
| Expected life in years | 5.0 |
| Volatility | 62.21% |
| Weighted average fair value of options granted | $2.92 |

The volatility was determined by reviewing the stock fluctuation prices of post-secondary schools which trade on over the counter markets. During the year ended September 30, 2009, the Company recognized zero compensation expense in conjunction with these options as none of these options vest until December 11, 2009. The total compensation expense for unvested shares is approximately $8,101,000 which management expects to vest ratably until December 2012.

Stock option activity for the 2008 plan was as follows:

| | Shares | Exercise Price |
|---|---|---|
| Outstanding as of September 30, 2008 | 0 | |
| Granted | 2,774,406 | $5.27 |
| Exercised | 0 | |
| Cancelled | 0 | |
| Outstanding as of September 30, 2009 | 2,774,406 | $5.27 weighted average |
| Vested shares | 0 | $5.27 weighted average |
| Nonvested shares | 2,774,406 | $5.27 weighted average |
| | 2,774,406 | $5.27 weighted average |

## NOTE M - RETIREMENT SAVING PLAN

The Company sponsors a 401(k) retirement plan for all eligible employees as defined by the Plans. The participants may contribute up to 50% of their salary not to exceed 401(k), 404 and 415 limits of the Internal Revenue Code. The Company is required to match 50% of the employee's contribution up to 6% of their salary. The Company may also make a discretionary contribution each year. For the year ended September 30, 2009, the required Company contribution charged to operations was approximately $1,054,000. The Company did not make a discretionary contribution.

## NOTE N - SUPPLEMENTAL DISCLOSURES FOR STATEMENT OF CASH FLOWS

During the year, the Company recorded a reduction to Additional Paid-in Capital and expenses of $1,173,384, arising from the termination of the 2004 stock option plan. During the year, the Company paid income taxes of $9,555,633. During the year, the Company paid interest of $907,396.

## NOTE O - RELATED PARTY TRANSACTIONS

Four of the Company's Minnesota and North Dakota classrooms and school administrative offices are leased from several corporations, a partnership, and a limited liability corporation, which are each owned, in part, by a shareholder of Rasmussen College, Inc. as more fully described in Note K. This individual is employed as an officer of Rasmussen College, Inc. The amount of rent paid to these related parties totaled approximately $1,196,000 for the year ended September 30, 2009.

The Company has issued letters of credit which have been issued for the benefit of other companies within the consolidated group, as more fully described in Note K.

The Company is party to a consulting agreement with Salt Creek Ventures ("SCV") a company which is owned by Rasmussen College, Inc.'s Chairman. Under the terms of the agreement, Rasmussen College, Inc. pays a quarterly fee of $81,125, with additional payments of up to $150,000 annually, as approved by the Compensation Committee of Rasmussen College, Inc.'s Board. For the year ended September 30, 2009, Rasmussen College, Inc. expensed consulting fees totaling $401,623 under the terms of this agreement. During the year ended September 30, 2009, Rasmussen College, Inc.'s Compensation Committee has approved $77,123 additional compensation to SCV. From time to time, SCV funds certain expenses incurred on behalf of Rasmussen College, Inc. and is subsequently reimbursed. As of September 30, 2009, there was an $89,694 amount owed to SCV.

## NOTE P - REGULATORY

To participate in the Title IV programs, an institution is subject to extensive regulation and periodic reviews by the federal and state governmental agencies, and accrediting bodies involved. An institution must be authorized to offer its programs of instruction by the relevant agencies of the state in which it is located, accredited by an accrediting agency recognized by the Department of Education (DOE) and certified as eligible by the DOE. On a periodic basis, an institution must be re-approved by these agencies to continue to receive Title IV funds. An institution must also demonstrate its compliance with the Higher Education Act (HEA) and the regulations promulgated thereunder to the DOE on an ongoing basis. Political and budgetary concerns can significantly affect the Title IV Programs, and Congress must reauthorize the HEA approximately every six years. As of September 30, 2009, Rasmussen College, Inc. and Subsidiaries was properly authorized by the regulatory agencies involved and no regulatory reviews were being conducted by the respective agencies.

Regulations have been established which impose limitations on institutions whose former students default on the repayment of their federally guaranteed or funded student loans above specific rates (cohort default rate). An institution whose cohort default rate equals or exceeds 25% for three consecutive years will no longer be eligible to participate in the Federal Family Educational Loan program, Federal Direct Loan program or the Pell program. An institution whose cohort default rate exceeds 40% may have its eligibility to participate in the Title IV Programs limited, suspended or terminated by the DOE. All of the Title IV eligible subsidiaries of Rasmussen College, Inc. had a cohort default rate below the sanction levels described above for the year ended September 30, 2009.

Under the federal regulations mentioned above, the DOE calculates the institution's composite score based on a three factor financial responsibility ratio. An institution which does not meet the DOE's minimum composite score of 1.5 can demonstrate financial responsibility by meeting the "zone alternative" or posting a letter of credit in favor of the DOE. The "zone alternative" includes a delayed method of cash funding for Title IV aid, and the providing of additional information to the DOE, upon request. As of September 30, 2009, each of the Colleges had a composite score in excess of 1.5. In addition, as of September 30, 2009, the Colleges had a combined composite score of 3.0.

Rasmussen College, Inc. and Subsidiaries derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs, Rasmussen College, Inc. and Subsidiaries must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. The failure of the Rasmussen College, Inc. and Subsidiaries to meet the 90 percent limitation for two consecutive years will result in the loss of Rasmussen College, Inc. and Subsidiaries' ability to participate in SFA programs. All of the Title IV eligible subsidiaries of Rasmussen College, Inc. had rates below 90 percent for the year ended September 30, 2009.

## NOTE Q - SUBSEQUENT EVENTS

In addition to the subsequent events disclosed in Note A, Note G and Note I, subsequent events reported by the Company are as follows:

On November 12, 2009, the Board of Directors amended the 2008 stock option plan to permit restrictive stock awards. In conjunction, the Board of Directors granted 15,000 shares under a restrictive stock grant to a member of the Board of Directors. The restrictive stock vests one-third annually beginning on September 1, 2010 as long as the member has remained in continuous service to the Company. Vesting may be accelerated or forfeited in the event of a change in control of the Company, or a change in the option holder's service relationship with the Company.

On November 13, 2009, the Board of Directors terminated new grant options under the 2008 stock option plan and adopted the 2009 stock option plan. No further options will be granted under the 2008 plan.

The Company has evaluated subsequent events through February 26, 2010, the date the consolidated financial statements were available to be issued.

## NOTE R - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

The Company adopted Topic 820, *Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification.* Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 has been applied prospectively as of the beginning of the year.

Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

**Interest Rate Swap Agreement**

The fair value is estimated by a third party based upon comparison to similarly issued agreements, therefore, is classified within Level 2 of the valuation hierarchy.

## NOTE R - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

**Long-Term Debt**

The carrying amount approximates fair value because the interest rate on the outstanding debt is variable, therefore is classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at September 30, 2009:

| | | FAIR VALUE MEASUREMENTS USING | | |
|---|---|---|---|---|
| | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Interest rate swap agreement | $ (1,708,646) | $ 0 | $ (1,708,646) | $ 0 |
| Long-term debt | $ (23,000,000) | $ 0 | $ 0 | $ (23,000,000) |

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs:

| | |
|---|---|
| Beginning balance | $ 23,000,000 |
| Unrealized loss included in other comprehensive income | 0 |
| Transfers in and/or out of Level 3 | 0 |
| Ending balance | $ 23,000,000 |

The following table presents estimated fair values of the Company's financial instruments in accordance with Topic 820 at September 30, 2009:

| | **Carrying Amount** | **Fair Value** |
|---|---|---|
| Financial liabilities | | |
| Interest rate swap agreement | 1,708,646 | 1,708,646 |
| Long-term debt | 23,000,000 | 23,000,000 |